

University of Pennsylvania
The Wharton School

Finance 101: Monetary Economics & the Global Economy Syllabus

Professor Nicholas S. Souleles
Spring, 2008

Course Description:

Finance 101 is an intermediate-level course in macroeconomics, with particular attention to monetary and international economics. The course develops the classic models of the aggregate economy, namely models of the central real and financial markets and their interactions. The goal is to provide coherent frameworks for analyzing macroeconomic events (eg, recessions and booms) and policy, and thus the environment in which firms, consumers, governments, and financial markets and intermediaries operate. We apply these frameworks to understanding the US, foreign, and global economies.

The first part of the course presents a classical analysis of the central economic markets: the labor market, goods & capital markets, and asset markets. The second part puts these markets together to model simultaneously the entire economy (general equilibrium). The focus is on explaining 1) the behavior and implications of the key economic variables over the business cycle: production and demand (and their components); inflation, interest rates and asset prices; employment, wages and corporate profits; exchange rates and international flows of goods and capital; 2) long-run economic growth, in developed and emerging markets; and 3) how macroeconomic policy affects the economy. The final part of the course examines the global economic system, focusing on monetary policy, interest rates, and the financial system; and on exchange rates, international trade, and policy in the open economy. In all parts of the course the analysis will be applied to current events and debates, both in the US and abroad.

A provisional schedule of topics and readings is attached. Changes to this may be announced during the semester.

Course Materials:

The required textbook is *Macroeconomics* by **Abel, Bernanke, and Croushore** [AB] (Addison-Wesley, **6th edition**, 2008). It is available in the Bookstore.

Students should also purchase the **coursepack** from Reprographics, which contains supplementary readings and sample exams. Additional handouts will be distributed in lecture, and billed by the bursar. The **lecture notes** will contain the definitive list of readings and assignments associated with each topic. Note: The lecture notes are not intended to be substitutes for reading the text. Further information will be posted on the course **webpage** (address below), which you should consult regularly.

You will be expected to follow and analyze related current events. Please read one of the following (or a close substitute) regularly: the *Wall Street Journal*, the *New York Times*, the *Economist*, or the *Financial Times*.

Examinations:

There will be two midterm examinations and a final examination. The midterm exams are scheduled for the evenings of Thursday, **February 14th** and Thursday, **March 27th**. The final exam will be given during the final examination period as scheduled by the registrar.

The final exam will be given twice the weight of the midterm exams, yielding effectively four exam grades. The lowest grade among these four grades will be dropped. This provides students with a great deal of insurance against both scheduling conflicts and an anomalous exam performance. As a result, no requests to reschedule or retake a midterm exam will be entertained, unless specifically required by University policy. The final exam can be rescheduled only if required by University policy, and only during the official make-up period during the first week of the following semester.

You must receive approval for a make-up exam, or official disability accommodations, at least one week before the exam is administered. (In case of serious illness on final exam day, you must notify the professor *before* the exam begins, and provide documentation from a doctor soon afterwards.) If you miss an exam without following the rules, the exam grade will be a zero.

The exams will be closed-book, except that you may bring along a single 8.5"x11" sheet of notes to midterm #1, two sheets to midterm #2, and three sheets to the final. These notes may not include reproductions of large sections of the text, class notes, or coursepacks. You may use a calculator, but only if it cannot communicate with other devices (e.g., no cellphone calculators).

Regrade requests must be submitted using the official regrade form (on the course webpage), including a signed "Statement of Honesty" and the entire exam. For the midterm exam, requests must be made within one week from the date that exams are returned (whether or not you actually pick up your own exam on that date); for the final exam, within one week from the first day of classes the following term. We retain the right to regrade the entire exam. You may not, of course, alter any of your answers on a submitted exam.

Grading:

The course grade will be based on the following: Exams 75%, Assignments 15%, Global Analysis Project 10%.

Problem sets and other assignments will be due regularly throughout the semester. Some of the assignments will be graded. Unless explicitly instructed otherwise, each student must individually complete and submit his/her own solutions (e.g., you cannot copy or modify another student's solutions). These will not be accepted tardy and no regrade requests will be accepted. Additional, ungraded sample problems will be assigned for each topic. You are advised not to neglect these sample problems; past experience suggests that they too are necessary for understanding the course material and doing well on the exams.

The Global Analysis project is a group assignment promoting teamwork and communication, near the end of the semester. Each group will give an in-class presentation applying the course material to analyze the macroeconomic situation of a foreign country. Details will be provided in class.

Students must attend the course section in which they are officially enrolled.

Violations of the course or University rules may be referred to appropriate authorities for disciplinary action. Please review the Code of Academic Integrity at:
<http://www.vpul.upenn.edu/osl/acadint.html>.

Contacts:

Office hours will be announced in lecture. We prefer to meet at these times, but if you cannot make them you may make an appointment to meet at other times. My addresses are:

email: *souleles@wharton.upenn.edu*

phone: *898-9466*

office: *2319 SH-DH*

webpage: <http://finance.wharton.upenn.edu/~souleles>

Provisional Outline¹

Topic	Readings (chapter: section in AB)
0. Introduction and Economic Statistics.	
Economic Indicators & Market Response	2:1-2, 2:4-5 handouts
I. The Central Economic Markets.	
Productivity and Labor Demand	3:1-2, 6:1
Labor Supply and Labor Market Equilibrium	3:3-6, 12:2
Consumption and Saving	2:3, 4:1, Appendix 4.A, 15:3
Investment and Capital Market Equilibrium	4:2-3
International Capital and Goods Markets	5
Money, Inflation, Asset Market Equilibrium	7
II. The Aggregate Economy.	
Impacts of Business Cycles	8
General Equilibrium	9:1-5, Appendix 9A/B, 10:1, 9:6
The IS-LM-FE Model	
Business Cycle Theories & Stabilization Policy	10:2-3, 11, 15:2
Unemployment, Inflation, and the Fed	12
Long-Term Economic Growth	6
III. The International Economic/Financial System.	
Monetary Policy in the US and Abroad	14
The Fed and the Financial System	handouts
The Fed Funds Market & the Yield Curve	
The Global Economy	
Exchange Rates and International Trade	13:1-2, handouts
Open Economy IS-LM-FE	13:3-4
Exchange Rate Policy	13:5
Global Analysis Project	

¹ **Note:** This outline is subject to changes announced in lecture and posted on the website. The lecture notes contain the definitive list of readings and assignments associated with each topic.